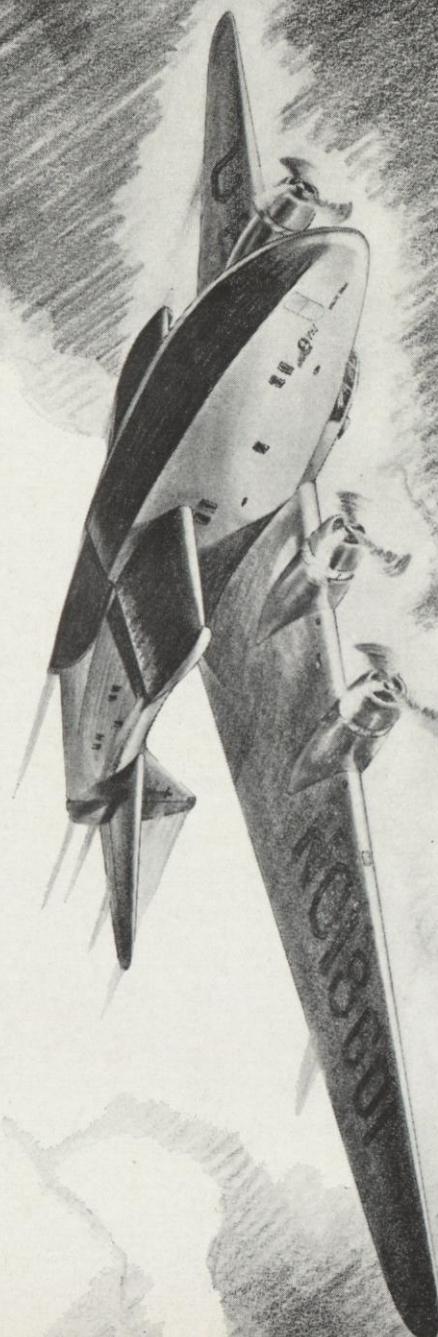
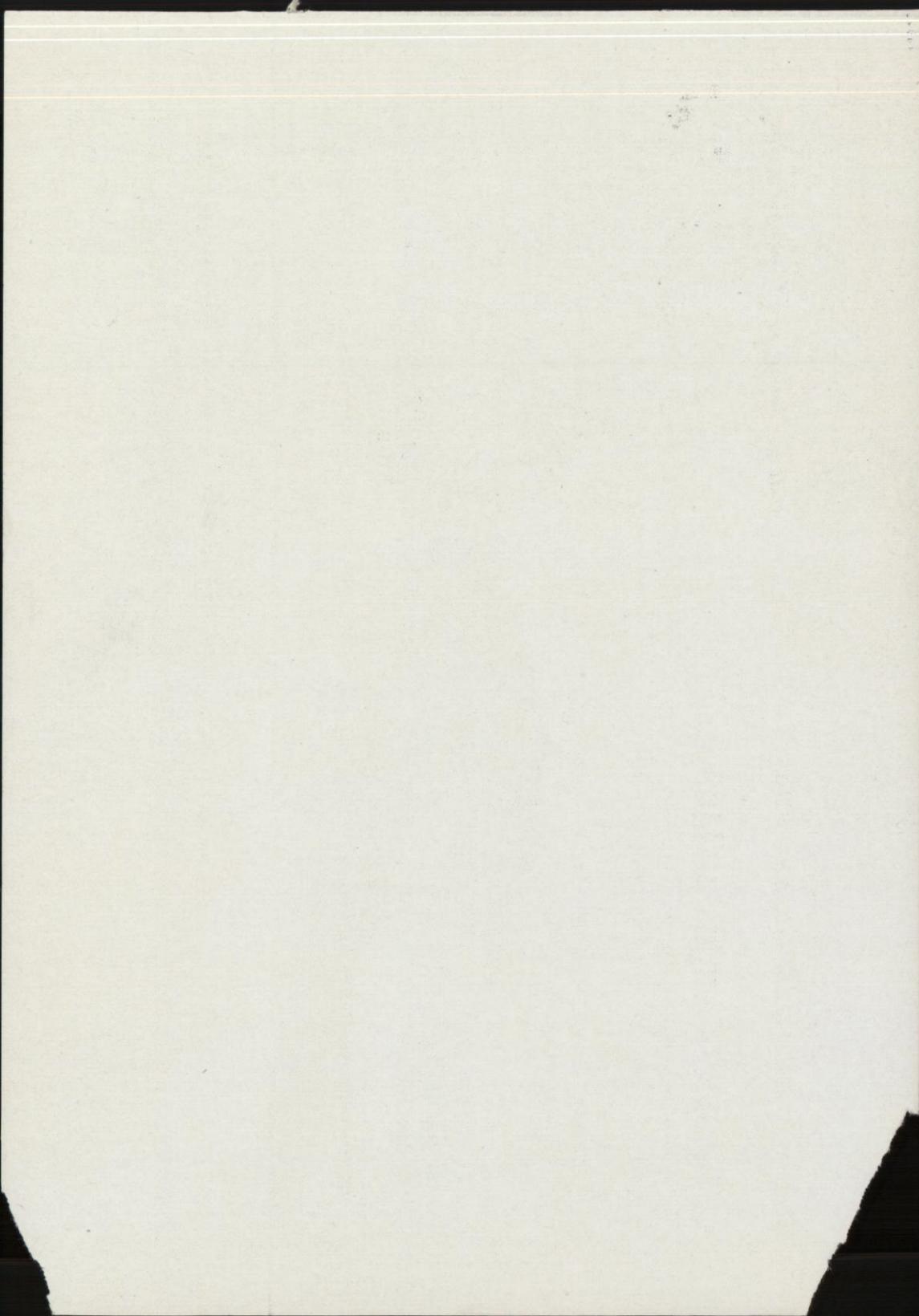


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Allen R. S.
BOEING AIRPLANE COMPANY
AND SUBSIDIARY COMPANIES
REPORT TO STOCKHOLDERS
YEAR ENDED DECEMBER 31, 1937



offered to stockholders, 163,847 shares were issued upon the exercise of stockholders' "rights" and the underwriters took up the balance of 9,577 shares. Net proceeds amounted to \$3,789,644.15 which were used substantially as follows:

Expansion of Plant and	
Facilities	\$ 532,000.00
Working Capital	3,258,000.00

At the special stockholders' meeting, the directors were also authorized to set aside 12,000 shares for sale to officers and employees of the Company and its subsidiaries at a price not less than the offering price to stockholders. Up to the present time this stock has not been offered for such sale.

SIMPLIFICATION OF CORPORATE STRUCTURE

Your Company continued to hold 100% of the capital stock of its two direct subsidiaries, Boeing Aircraft Company and The Stearman Aircraft Com-

pany. However, in line with the current trend toward the elimination of holding companies and the simplification of corporate structures, your directors have continued to give attention to the problem of liquidating subsidiaries. Unless unforeseen obstacles arise, the properties of The Stearman Aircraft Company will, in the near future, be transferred to Boeing Airplane Company. Thereafter this unit will be operated as a Division of Boeing Airplane Company with the existing Stearman personnel in charge.

ACTIVITIES OF SUBSIDIARIES

Boeing Aircraft Company

During the year this subsidiary completed deliveries to the U. S. Army Air Corps under the original contract for thirteen 4-engine bombardment airplanes and was awarded an additional contract for twenty-six more of these airplanes plus spare parts. It is expected that the first of the six "Clipper,"

ANNUAL REPORT

TO THE STOCKHOLDERS OF BOEING AIRPLANE COMPANY.

THE Statement of Consolidated Income and Surplus of your Company and its subsidiary companies for the year 1937 and the Consolidated Balance Sheet as of December 31, 1937, are submitted herewith, together with report of Allen R. Smart & Co., independent certified public accountants.

The backlog of unfilled orders has likewise continued to increase as follows:

December 31, 1936.....	\$ 8,921,797.22
December 31, 1937.....	14,112,298.49
March 1, 1938.....	14,578,025.71

FINANCING

It will be noted that net profit after depreciation and Federal income taxes is \$311,683.47, equivalent to 51c per share on the average number of shares outstanding during the year. This compares with a profit of \$168,364.35 shown for the previous year.

During the past year, the Company completed its financing program as authorized at the special stockholders' meeting held May 7, 1937. Additional shares were offered to stockholders on the basis of one additional share for each three shares held, at a price of \$23 per share. Of the 173,424 shares

• *On the Cover—The Boeing "Clipper."*

flying boats will be flight tested about May first, and shortly thereafter the first of the 4-engine land transports will be completed. It is believed that these airplanes will set a new standard in air transportation.

This Company has registered the word "Stratoliner" as the trademark designating its 4-engine transport airplanes which are designed for operation in the substratosphere through the use of sealed cabins and pressure regulating equipment. The name "Flying Fortress" is likewise a trademark distinguishing this Company's 4-engine bombardment airplanes.

The large experimental bomber (Army designation XB-15) underwent preliminary flight tests in Seattle and was flown in December to Dayton, Ohio, where it is undergoing final tests prior to acceptance. Although this airplane is the largest airplane ever constructed in the United States, its stability, response to and ease of control were equally as

satisfactory as the handling qualities of its smaller brother, the now famous "Flying Fortress."

Because of the sharp decline in commodity prices at the close of the year, the New York Stock Exchange has indicated the desirability of corporations advising their stockholders as to whether commitments for materials are or may become a material factor in the corporation's position. Inasmuch as this Company largely purchases aircraft materials against specific requirements, such commitments are not a factor.

However, a full understanding of the inventory position of the Company is desirable. The inventory values shown in the balance sheet are comprised largely of the cost of manufacturing the large flying boats and land transports previously mentioned.

The flying boat contract was entered into in July, 1936. In arriving at a contract price, the Company made allowance for reasonable wage increases. On July 1, 1937, however, it became necessary to in-

crease wages materially in excess of any wage rates previously contemplated.

By reason of the large development cost of a new model aircraft, it is necessary, in order to meet competitive prices, that such cost be absorbed by the sale of a substantial quantity of aircraft of that model. When the Company entered the four-engine land transport field in 1937, it recognized that the first quantities of aircraft sold must be offered at prices below the cost of production for such quantities, with the expectation that a sufficient number ultimately would be sold to bring the production cost below the sales price. The number of these transports contracted for up to the present time has not accomplished this result and for this reason as well as unanticipated increases in labor costs, the inventory cost of such transports as of December 31, 1937 was more than its proportionate realizable value. The same was true of the "Clipper" project on account of such increased labor costs.

It is expected that further sales of both the "Clipper" and the transport will be made. Whether the Company realizes a profit or loss from these projects and the amount thereof will depend upon the total quantity of such airplanes sold. If further orders do not materialize by the time the present contracts are completed, the entire cost of production will be charged against such contracts.

During the year, the addition to the new assembly plant adjacent to Boeing Field was completed. The enlarged building, containing 156,000 square feet of floor area, unobstructed except for two dividing rows of columns, will provide space for both sub-assembly and final assembly operations on all land planes. The manufacture of parts and flying boat work will continue at plant number one.

This Company's subsidiary, Boeing Aircraft of Canada Limited, showed a small profit for the year, its first since 1929. A contract for the manufacture of a small number of airplanes of English design

was awarded the Company during the year by the Canadian government. Because the national defense program now under way in Canada affords the principal outlet for aircraft, it appears desirable to dispose of this subsidiary to Canadian interests if satisfactory terms can be arranged. Preliminary to a reorganization and possible sale of this subsidiary, Boeing Aircraft Company offered to acquire the holdings of the minority stockholders. Its holdings have increased as follows:

	<i>Per cent owned</i>	<i>Common</i>	<i>Preferred</i>
December 31, 1936.....	92.63	90.42	
December 31, 1937.....	92.95	94.48	
March 1, 1938.....	97.80	97.65	

* * *

The remarkable flight to the Argentine, made in February, 1938, by U. S. Army Air Corps personnel using six Boeing "Flying Fortresses," and the lively interest being shown by air transport operators in four-engine equipment are indications that the four-engine design program of this Company has opened a promising field for the future.

By order of the Board of Directors.

The Stearman Aircraft Company
This subsidiary retained its position of preeminence in the primary training plane field. Ninety-one airplanes were delivered during the year. This included deliveries to the U. S. Army Air

Corps, the Philippine Army, the Brazilian Army Air Corps and the Argentine Ministry of Marine.

A contract was received from the United States Navy for an experimental service type airplane larger than the training planes currently in production. This airplane is now nearing completion and flight tests will be conducted later this spring.

In order to utilize available plant capacity, Stearman is building all control surfaces for Boeing transports and "Flying Fortresses."

March 8, 1938.

C. L. ECTVEDT, President.

CONSOLIDATED BALANCE SHEET

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BOEING
AIRPLANE COMPANY
and Subsidiary Companies
as of
December 31, 1937



ASSETS

CURRENT ASSETS:	
Cash	\$2,423,791.70
Notes and Accounts Receivable:	
Trade Notes and Accounts Receivable	\$ 191,559.11
Sundry Accounts and Accrued Interest	10,455.38
	<u>\$ 201,994.49</u>
Less—Reserve for Doubtful Accounts	3,870.97
Inventories:	
Raw Materials and Supplies, Work in Process and Finished Products, less reserve \$11,396.93, at substantially the lower of cost or market	\$ 873,964.82
Contracts in Progress, less Progress Payments of \$721,201.32 received or billed (Note 1)	2,750,129.93
	<u>3,624,094.75</u>
TOTAL CURRENT ASSETS	<u>\$6,246,009.97</u>
NOTES RECEIVABLE MATURING AFTER 1938 (secured by Maine Mortgages)	22,138.00
INVESTMENTS AND OTHER ASSETS:	
Miscellaneous Stocks, Contracts and Real Estate, less reserve \$36,171.64	7,645.26
FIXED ASSETS:	
Property and Equipment, at cost:	
Land and Buildings	\$1,739,864.28
Machinery, Tools and Equipment	861,902.31
	<u>\$2,601,766.59</u>
Less—Reserve for Depreciation	<u>751,004.15</u>
	<u>\$1,844,762.44</u>
Land, Buildings and Equipment of The Stearman Aircraft Company constructed in 1930, and written down in 1931 to estimated realizable value, plus subsequent additions at cost, less reserve for depreciation \$58,371.07	147,999.83
	<u>1,992,762.27</u>
DEFERRED CHARGES:	
Prepaid Rent	\$ 26,525.73
Unexpired Insurance, etc.	9,677.49
	<u>36,203.22</u>
TOTAL ASSETS	<u>\$8,304,758.72</u>

LIABILITIES and CAPITAL

NOTES

CURRENT LIABILITIES:

Notes Payable—Royal Bank of Canada.....	\$ 54,950.00
Notes Payable—Trade.....	5,216.70
Accounts Payable—Trade.....	225,915.67
Accrued Wages, Taxes, etc.....	219,020.87
Provision for 1937 Federal Normal, Excess Profits and Undistributed Profits Taxes.....	67,469.53
Advances on Sales Contracts.....	485,100.00
TOTAL CURRENT LIABILITIES.....	\$1,057,672.77

RESERVES:

For Insurance	\$ 26,921.34
For Contingencies	12,133.17
	39,054.51

MINORITY INTEREST:

Boeing Aircraft of Canada Limited:	
Preferred Stock—193 shares (Note 2).....	\$ 19,300.00
Common Stock—917 shares.....	708.32
TOTAL CAPITAL STOCK.....	\$ 20,008.32
Minority Proportion of Deficit.....	20,008.32
	—

CAPITAL STOCK AND SURPLUS:

Capital Stock:

Authorized 800,000 shares of \$5.00 Par Value (Note 3) Issued and Outstanding 694,035 Shares and 107/8ths Scrip.....\$3,470,241.88

To be issued for Shares of Capital Stock of United Aircraft & Transport Corporation upon presentation for exchange—
1,636 shares.....

8,180.00

Paid-In Surplus

4,044,341.01

\$7,522,762.89

Earned Surplus (Deficit).....

314,731.45

7,208,031.44

TOTAL LIABILITIES AND CAPITAL.....

\$3,304,758.72

NOTE 1: Contract - in - progress inventories have been valued at cost or cost standards, except that certain experimental contracts nearing completion have been valued at estimated proportionate sales value, which is lower than cost. Certain contract-in-progress inventories, which are stated at cost, are valued in excess of proportionate sales value, based upon the quantities of products under contract at December 31, 1937. Said inventories include all development costs incurred in connection with such products with the expectation that such development costs may be prorated over greater quantities. This proration is contingent upon obtaining additional orders for similar products.

NOTE 2: The 6% cumulative preferred dividends of Boeing Aircraft of Canada Limited were paid to December 1, 1930. The unpaid cumulative dividends amounted to \$92.50 per share at December 31, 1937 and the total unpaid dividends on the minority interest of 193 shares of preferred stock aggregated \$8,202.50, for which no provision has been made in the foregoing statement.

NOTE 3: Of the authorized capital stock, 28.569% shares are issuable at approximately \$16.94 per share upon the exercise of stock purchase warrants of United Aircraft & Transport Corporation, if exercised on or before November 1, 1938.

CONTINGENT LIABILITIES:

1. The Company was contingently liable with respect to pending claims and actions for alleged infringement of patents and other causes.
2. The Company was contingently liable for expected losses on certain experimental contracts nearing completion estimated in the amount of \$19,528.28.

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended December 31, 1937

GROSS SALES, LESS DISCOUNTS, RETURNS and ALLOWANCES			\$5,545,439.03
COST OF SALES		\$4,655,961.72	
ENGINEERING and DEVELOPMENT EXPENSES Not Directly Recoverable		91,752.87	
SELLING, GENERAL and ADMINISTRATIVE EXPENSES		332,572.86	
PROVISION FOR DOUBTFUL ACCOUNTS		1,248.96	
DEPRECIATION		104,900.63	5,186,437.04
OPERATING PROFIT			\$ 359,001.99
OTHER INCOME:			
Discount on Purchases		\$ 11,585.86	
Interest Earned		5,668.53	
Sundry		6,177.88	23,432.27
			\$ 382,434.26
INCOME DEDUCTIONS:			
Interest Paid		\$ 2,442.69	
Sundry		838.57	3,281.26
NET PROFIT—Before Federal Income Taxes			\$ 379,153.00
PROVISION FOR FEDERAL INCOME TAXES:			
Normal Income and Excess Profits Taxes		\$ 65,423.20	
Surtax on Undistributed Profits		2,046.33	67,469.53
NET PROFIT FOR YEAR			\$ 311,683.47

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED EARNED

SURPLUS (DEFICIT) ACCOUNT

CONSOLIDATED
PAID-IN SURPLUS ACCOUNT

Year ended December 31, 1937

Year ended December 31, 1937

DEFICIT—January 1, 1937..... \$345,757.05

Deduct:

Net Profit for Year ended December 31, 1937 \$311,683.47

Add:
Excess over par of amount received upon issuance of 173,424 Shares of Capital Stock, less expenses in connection therewith \$199,107.85..... \$2,922,524.15

Less—Cash Dividend paid on 694,006 3/4 Shares of Capital Stock outstanding on November 24, 1937, 40 cents per share 277,602.70 34,080.77
\$311,676.28

Excess over par of amounts received upon issuance of 73 Shares of Capital Stock (or scrip certificates) issued upon the exercise of stock purchase warrants of United Aircraft & Transport Corporation..... 871.45

Adjustment of Depreciation for periods prior to date of acquisition..... 5,736.73

Adjustment of Depreciation prior years..... 1,634.17
Cost of Minority Stock purchased which had no equity value..... 1,421.00 3,055.17
DEFICIT—December 31, 1937..... \$314,731.45

BALANCE—December 31, 1937.....

554.13 2,929,686.46
\$4,044,341.01

AUDITORS' CERTIFICATE

BOEING AIRPLANE COMPANY
SEATTLE, WASHINGTON

We have made an examination of the consolidated balance sheet of Boeing Airplane Company and Subsidiary Companies as of December 31, 1937, and of the consolidated profit and loss and surplus accounts for the year ended that date. In connection therewith we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts, but we did not make a detailed audit of the transactions.

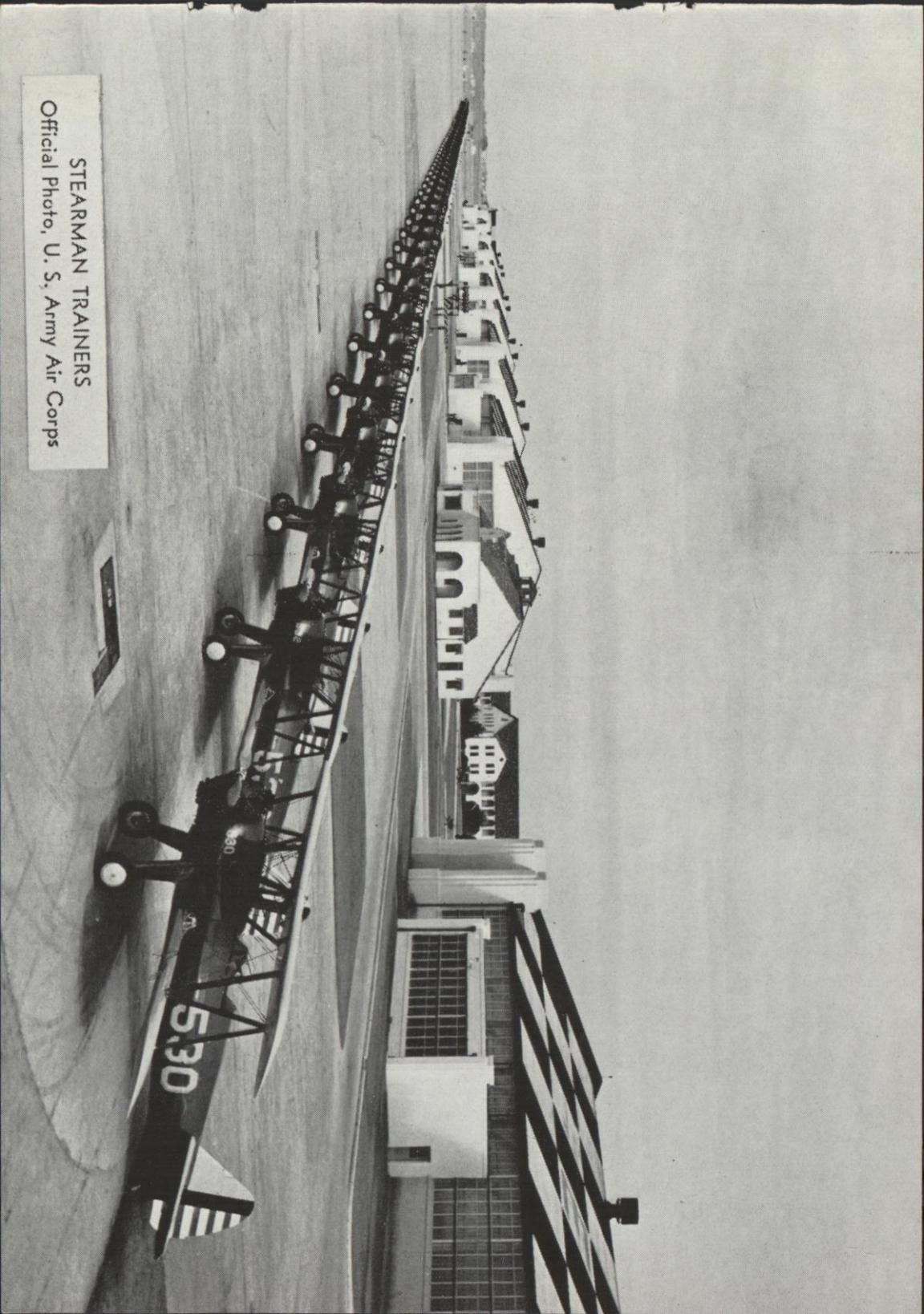
At December 31, 1937, certain contract-in-progress inventories, which are stated at cost, are valued in excess of proportionate sales value, based upon the quantities of products now under contract. Said inventories include all development costs incurred in connection with such products. We were informed that it is the expectation of the Company that such development costs may be prorated over greater quantities, such proration being contingent upon obtaining additional orders for similar products. By reason of the foregoing we are unable to express an opinion as to the amount of possible losses, if any, which may be sustained in connection with such contract-in-progress inventories.

In our opinion, based upon such examination and subject to the foregoing comments, the accompanying consolidated balance sheet and related statements of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, their consolidated position at December 31, 1937, and the results of their operations for the year.

ALLEN R. SMART & CO.
Certified Public Accountants.

SEATTLE, WASHINGTON, MARCH 3, 1938.

STEARMAN TRAINERS
Official Photo, U. S. Army Air Corps



BOEING "FLYING FORTRESSES" OVER NEW YORK
Official Photo, U. S. Army Air Corps



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of Messrs. Todd, Holman & Sprague

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Secretary and Treasurer

Secretary and Treasurer, Boeing Aircraft Company

CLAIRE L. EGTVEDT

President

President and General Manager,
Boeing Aircraft Company

PAUL PIGOTT

President, Pacific Car and Foundry Company

J. EARL SCHAEFER

Vice-President
President, The Stearman Aircraft Company

DIETRICH SCHMITZ

President, Washington Mutual Savings Bank

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J. EARL SCHAEFER

Vice-President

JAMES P. MURRAY

Vice-President

HAROLD E. BOWMAN

Secretary and Treasurer

General Counsel

CITY BANK FARMERS TRUST COMPANY, NEW YORK

TODD, HOLMAN & SPRAGUE

General Auditors

Registrar

THE NATIONAL CITY BANK OF NEW YORK, NEW YORK

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Boeing Aircraft Company*

ROBERT J. MINSHALL

*Vice-President and Chief Engineer,
Boeing Aircraft Company*

